# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

STARRED QUESTION NO:481
ANSWERED ON:20.04.2001
NEW GUIDELINES TO CONTROL BOURSES
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**Will the Minister of FINANCE be pleased to state:**

(a) whether in the wake of stock market crash and payment crisis in the Mumbai and Calcutta Stock exchanges, SEBI issued a set of new guidelines to control bourses and ensure that payments were settled immediately;

(b) if so, the details of the guidelines so issued;

(c) whether the guidelines so issued have shown any positive results in the stock market and how these measures are different from the measures taken earlier; and

(d) the further steps being taken by SEBI to avoid such situation in future?

## Answer

MINISTER OF FINANCE (YASHWANT SINHA)

(a) to (d) : A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO STARRED QUESTION NO. 481 (PRIORITY NO. 1) FOR 20th APRIL, 20 REGARDING NEW GUIDELINES TO CONTROL BOURSES

(a) and (b) : The Securities and Exchange Board of India (SEBI) has intimated that in order to ensure safety of the stock markets and timely completion of settlements SEBI has taken several measures which are given below:

- All the scrips in Modified Carry Forward System (MCFS)/Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending Securities Scheme (BLESS) will attract additional margin of 10% on end of the day net outstanding sale position. This was increased to 25% with effect from 12th March, 2001.

- No exemptions would be allowed in the applicability of volatility margin to any class of investors and that the volatility margins would be applicable to sale positions of financial institutions, foreign institutional investors and mutual funds which up till now had not been subjected to any margins.

- The threshold limit of volatility margins was reduced from 80% to 60% so as to bring more scrips under the ambit of the volatility margin.

- All sales transactions effective from March 8, 2001 shall be backed by delivery unless a sale transaction is preceded by a purchase position of at least an equivalent amount in the name of the same client in the same or any other exchange. This will also apply to the proprietary trading by members. This will be on a self-certification basis and would be subject to exchange`s off-site inspection up to sub-broker and client level. The exchanges would share information to facilitate the verification. It would be applicable to scrips in the MCFS, ALBM and BLESS and other deferral products.

- the current margining system will be moved to the var scrip-wise model from July 01, 2001.

- The broker-wise end of the day outstanding position (aggregate of all securities) of a member on any stock exchange other than the Stock Exchange, Mumbai (BSE)/National Stock Exchange (NSE) shall not exceed Rs. fifty crore with effect from 12th March, 2001. The BSE and NSE have been excluded from the purview of this stipulation in view of the size of their trade and settlement guarantee funds.

- The gross exposure limit for the members of stock exchanges was reduced to 10 times of the base capital and the additional base capital in the case of NSE and to 15 times for other stock exchanges with effect from 12th March, 2001.

- Stock exchanges were permitted to use the settlement guarantee fund maintained by them for meeting the shortages arising out of the non-fulfillment/partial fulfillment of the funds obligations by the members in the settlement before declaring the concerned member defaulter. This is in line with the practice followed by NSE and it is also in accordance with the international practice.

In the context of price movements during late February and early March, 2001, there were apprehensions of possibility of distortion of price discovery by certain entities. On account of indications of prima facie involvement of entities relating to Ketan Parekh Group, in price manipulation of certain scrips, SEBI has debarred on 4th Apriland 11th April, 2001, these entities from undertaking fresh business activities as intermediaries either as brokers or as merchant bankers. Subsequently, on April 18th, 2001, pursuant to the preliminary investigation into market manipulation, SEBI has also debarred certainentities relating to Nirmal Bang Group, Shanker Sharma & Devina Mehra Group and CreditSuisse First Boston (I) Securities Pvt. Ltd.from undertaking fresh business activities as intermediaries either as brokers/sub-brokers or as merchant bankers. Palombe Securities Pvt. Ltd.,an unregistered sub-broker, has been debarred from dealing in securities market.

(c) and (d) : According to SEBI the pay-ins andpay-outs of the recently concluded settlements on all the stock exchanges have taken place on time as a consequence of the above steps taken by SEBI.Further, Government has announced the following measures to improve institutional mechanisms and trading practices in the stock markets:

(i) demutualisation of stock exchanges by which ownership, management, and trading membership would be segregated from each other. This would help towards:

• further professionalisation of the management of the exchanges and elimination of conflict of interests;

• improving adherence to the best practices of corporate governance;

• enhancing the ability of stock exchanges to raise funds from the market to modernise the exchanges and provide better investor service.

(ii) extension of rolling settlement to 200 category ``A` stocks in Modified Carry Forward Scheme, Automated Lending andBorrowing Mechanism and Borrowing and LendingSecurities Scheme by July, 2001. Followingthis, SEBI has directed all stock exchanges as follows :

• All scrips which are included in the ALBM/BLESS/MCFS in a stock exchange will be traded only in the compulsory rolling settlement on a nationwide basis i.e. on all stock exchanges from July 2, 2001.

• In addition, if there is any scrip which is included in the BSE 200 list,but not covered by the above list, will also be included in the compulsory rolling settlement on a nationwide basis.

• Stock exchanges will have to develop software (if necessary), create suitable infrastructure for the same before July 2, 2001, if the stock exchange wants the scrips to be traded on their exchanges other than on spot basis.

(iii) proposing legislative changes in the SEBI Act, 1992 to appropriately strengthen SEBI.